

## Message Text

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ORIGIN EB-03

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R 281823Z JAN 75

FM SECSTATE WASHDC

TO AMEMBASSY SAN JOSE

C O N F I D E N T I A L STATE 019753

LIMDIS

E.O. 11652: GDS

TAGS: EINV, CS

SUBJECT: OPIC PROJECT - MORTON B. TURBOW

REF: (A) STATE 6620; (B) SAN JOSE 192; (C) SAN JOSE 224

1. THE DEPARTMENT HAS ASKED OPIC TO DISCUSS A NUMBER OF PROBLEMS IN THE TURBOW PROJECT THAT WOULD HAVE TO BE RESOLVED PRIOR TO OUR APPROVAL OF THE PROJECT. WE BELIEVE IT WOULD BE USEFUL FOR YOU TO GO OVER WITH MANSBACH SOME OR ALL OF THE POINTS THAT GIVE US CONCERN AND TO LET US KNOW THE RESULTS AND ANY FURTHER COMMENTS YOU WISH TO MAKE. WE WILL AWAIT MANSBACH'S RETURN BEFORE MEETING WITH OPIC SO THAT HE CAN PARTICIPATE IN DISCUSSIONS AT THIS END ALSO.

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2. THE OPERATIVE PARAGRAPHS OF THE DEPARTMENT'S MEMO TO

OPIC ARE AS FOLLOWS:

3. BEGIN TEXT: FIRST, LAST YEAR OPIC AND EMBASSY SAN JOSE AGREED ON A POLICY ON LAND ACQUISITION INVESTMENTS IN COSTA RICA (SAN JOSE 2791 AND PREVIOUS). ALTHOUGH TURBOW HAS TOLD OPIC THAT THE HOUSING CONSTRUCTED WOULD BE SOLD ONLY TO COSTA RICANS, EMBASSY SAN JOSE BELIEVES THAT RETIRED AMERICANS WOULD CONSTITUTE THE LARGEST MARKET FOR HIGH COST HOUSING AND THAT IT WOULD BE ILLEGAL UNDER COSTA RICAN LAW TO REFUSE TO SELL TO AMERICANS (SAN JOSE

192). IN ADDITION FORM 52 INDICATES THAT A U.S. CORPORATION, PUERTO RICO FINANCIAL CORPORATION, WILL BE THE MORTGAGEE OF RECORD. SINCE THE PROJECT COULD RESULT IN U.S. OWNERSHIP OF REAL PROPERTY, IT APPEARS THAT THE LAND ACQUISITION POLICY, WHICH WOULD RULE OUT THIS PROJECT, SHOULD APPLY. THE OBJECTIVE OF THIS POLICY, AS YOU RECALL, IS THAT THE USG NOT ENCOURAGE INVESTMENT IN LAND AT A TIME WHEN LARGE FOREIGN PURCHASES OF LAND HAVE BECOME A HIGHLY SENSITIVE ISSUE.

4. SECOND, THE BROADER POLITICAL CONCERN WHICH UNDERLIES EMBASSY SAN JOSE'S OPPOSITION TO INSURANCE OF LAND ACQUISITION IS THAT A LARGE VOLUME OF ESSENTIALLY SPECULATIVE OR MISDIRECTED (IN TERM OF COSTA RICA'S DEVELOPMENT PRIORITIES) FOREIGN INVESTMENT COULD PROGRESSIVELY SOUR THE PRESENT HOSPITABLE CLIMATE TOWARD FOREIGN INVESTMENT AND IMPAIR BILATERAL RELATIONS GENERALLY. THIS BEING THE CASE, IT IS THE DEPARTMENT'S VIEW THAT USG INCENTIVES SHOULD BE UTILIZED TO DIRECT U.S. INVESTMENT INTO SOCIALLY AND DEVELOPMENTALLY USEFUL SECTORS OF THE COSTA RICAN ECONOMY. THE TURBOW PROJECT DOES NOT APPEAR TO MEET THIS CRITERION.

5. THIRD, THE DEPARTMENT IS CONCERNED ABOUT THE IMPACT OF CAPITAL FLOWS ABROAD GENERATED BY THE PROJECT UPON THE U.S. HOUSING INDUSTRY. THE TIMING OF THE PROJECT IS UNFORTUNATE IN THAT IT WOULD DRAW FUNDS FROM A CAPITAL SHORT INDUSTRY WITH ONE OF THE HIGHEST UNEMPLOYMENT RATES IN THE U.S. ECONOMY. THE FACT THAT THE FUNDS WOULD BE

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CHANNELLED INTO HIGH COST HOUSING ABROAD MAKES THIS ASPECT ALL THE WORSE.

6. FOURTH, EMBASSY SAN JOSE HAS REAL DOUBTS ABOUT THE BONAFIDES OF PARTICIPANTS IN THE PROJECT. WHILE WE WOULD NOT OPPOSE THE PROJECT ON THE BASIS OF SUSPICIONS ALONE, I WISH TO STRESS THE IMPORTANCE OF LAYING TO REST THE EMBASSY'S APPREHENSIONS PRIOR TO APPROVAL OF THE PROJECT,

IF IT BECOMES OTHERWISE ACCEPTABLE.

7. FIFTH, THE DEVELOPMENT EFFECTS APPEAR TO BE NIL OR EVEN NEGATIVE. TURBOW STATES IN FORM 52 THAT COSTA RICA WILL RECEIVE NO ADDITIONAL TAX REVENUES FROM THE PROJECT. THE PROJECT WILL PULL RESOURCES SUCH AS THE FINANCIAL RESOURCES OF THE COSTA RICAN BANK AND SKILLED CONSTRUCTION LABOR FROM OTHER WORK THAT WOULD PROBABLY CONFORM BETTER TO COSTA RICAN DEVELOPMENT OBJECTIVES. IN ADDITION, THE FOREIGN EXCHANGE LENT BY THE MORTGAGE POOL WOULD BE

REPAID AT 10 PERCENT INTEREST PLUS THE COST OF OPIC PREMIUMS, HARDLY A CONCESSIONAL RATE. THUS, DEVELOPMENTAL EFFECTS DO NOT PROVIDE AN ARGUMENT FOR OVERRIDING PROBLEMS WITH OTHER ASPECTS OF THE PROJECT.

8. THERE IS ALSO THE QUESTION RAISED IN SAN JOSE 224 OF POSSIBLE CONFLICT WITH THE AID HOUSING GUARANTY PROGRAM. IT WOULD BE NECESSARY TO KNOW THAT AID IS SATISFIED ON THIS POINT BEFORE APPROVAL OF THE PROJECT. END TEXT. KISSINGER

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